

To the Governor and Members of the General Assembly:

We are pleased to forward the ICC Staff Report to the Illinois Commerce Commission on the development of the Post 2006 electricity market. As outlined in the attached report, the Electric Service Customer Choice and Rate Relief Law passed by the Illinois General Assembly in 1997 set a course for the State of Illinois to gradually transition to a competitive retail electric market. We believe this report outlines an exhaustive and fully inclusive effort to gather all the facts and opinions regarding how the Post 2006 market will be structured.

While some may argue the Commission does not have adequate authority to order utilities to utilize any particular procurement method, we strongly believe we can take steps to reach agreement on a long-term structure that leads to the most sustainable energy infrastructure for Illinois and to the most competitive rates for Illinois consumers.

Of course, it is imperative that any auction structure attract as many bidders and resources as possible, thus enhancing its competitiveness. The existence of many bidders will serve to drive prices to the most competitive level. An auction that is not considered competitive may reflect the higher costs of the less efficient generators bidding into the market. The Commission must also determine that the structure of an auction is consistent with the current state of utility law in Illinois and the specific provisions of the 1997 Act. While the Commission may not have adequate authority to order utilities to utilize any particular procurement method, long-term, steps should be taken now to reach agreement on a long-term structure that would lead to the most sustainable energy infrastructure for Illinois and to the most competitive rates for Illinois consumers.

In addition to the many points that are offered in the attached staff report, we feel another factor leading to long-term price stability is the development of a truly open, competitive wholesale supply market that competitively incorporates all forms of generation and alternative supply, including wind, solar, biomass and actively managed demand response.

The Federal Energy Regulatory Commission's (FERC) position has been clear in calling for each region with an RTO or ISO to determine how it will ensure they have enough resources to meet their customers' needs and provide long term price stability. FERC has left it up to the states to figure out how it will be accomplished and the level of resource adequacy needed. However, FERC has also stated resources will have to be drawn from a mix of generation (wind, solar, biomass), transmission, energy efficiency and actively managed demand response.

The Commission considers renewable energy, conservation and demand response to be closely related. These are alternative approaches to the

traditional supply options that have been relied upon to meet customer demands in the past and should continue to be integrated into a long-term rate structure.

The cost of wholesale electricity can be significantly mitigated by an auction structure that allows all forms of alternative energy resources to be considered, but especially demand response, which has been shown to keep the highest cost generators out of the market.

If the objective is to create a “level playing field” in the auction process, then the state could require bids to reflect the full societal benefits and costs of all energy sources, including both traditional and alternative sources as analyzed across the full spectrum of energy infrastructure, including generation, transmission and distribution. This would enable an alternative energy source with low environmental costs or reduced pressure on the grid to compete favorably against traditional sources.

Furthermore, renewable resources are considered to have lower environmental impacts than traditional supply sources and are therefore advocated on this basis. Unfortunately, it seems that the current transition period, coupled with deregulation, has led to little or no incentive for utilities to promote renewables, efficiency or demand response.

As noted by the Illinois Energy Task Force, Illinois ranks in the bottom ten amongst state spending on efficiency. Alternative forms of energy are the key to a sustainable energy infrastructure and have significant environmental benefits and reduce pressure on the grid.

We feel that before a post-transition rate structure is put in place, a framework for the promotion of competitive renewables, efficiency and demand response must be considered. Future rates can even be crafted to advance environmental objectives and to boost the growth of alternative energy resources. Toward that goal three points should be stressed:

1. Any RPS must include all forms of alternative energy and sustainable energy development including energy efficiency and demand response.
2. Any RPS must address any required cost recovery consistent with the consensus reached in the Rates Working Group.
3. Any RPS must consider the effect of the use of renewable resources on rates while also analyzing their net economic impact on utilities and ratepayers including health costs, electric distribution investment, etc.

If the Commission, or indeed, the General Assembly, chooses to mandate the development of alternative resources, an important factor toward the growth of

alternative energy resources is an auction process consistent with Independent (grid) System Operator (ISO) rules.

All policymakers must insist that ISO market rules fully support the advancement of alternative energy resources such as wind, solar and demand response. Currently, while the ISO's stated intention is to have full non-discriminatory resource rules, the two system operators in Illinois, PJM and MISO, do not allow alternative resources full access to their markets nor have they recognized the full societal benefits and costs. They should be encouraged to consider a better model like what is found in FERC's draft standard market design policy.

In conclusion, if the State desires to create an equal playing field for alternative resources, a very important factor will be that both the auction process and ISO market rules must be consistent in its ability to foster the growth of all forms of alternative supply, including wind, solar, biomass and actively managed demand response.

Illinois Commerce Commission

December 2, 2004

Edward Hurley, Chairman

Lula Ford, Erin O'Connell-Diaz and Kevin Wright, Commissioners